

Message Text

CONFIDENTIAL

PAGE 01 JAKART 03294 200226 Z

63

ACTION EA-14

INFO OCT-01 ADP-00 AID-20 IGA-02 CIEP-02 COME-00 EB-11

FRB-02 OMB-01 TRSY-11 XMB-07 L-03 CIAE-00 INR-09

NSAE-00 RSC-01 SS-14 NSC-10 INT-08 SCEM-02 T-03

RSR-01 /122 W

----- 095382

R 191055 Z MAR 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6058

C O N F I D E N T I A L JAKARTA 3294

E. O. 11652: GDS

TAGS: EFIN, ID

SUBJECT: MEDIUM- TERM BORROWING AND IMF STANDBY

REF : JAKARTA 3165

1. CASHIN, HEGINBOTHAM AND I MET WITH FINANCE MINISTER ALI WARDHANA AND MINISTER OF PLANNING WIDJOJO ON MARCH 16 FOR FURTHER DISCUSSION PRESENT IMPASSE OVER MEDIUM- TERM BORROWING. IBRD REPRESENTATIVE GORDON ATTENDED MOST OF MEETING.

2. I EXPLAINED I HAD REQUESTED MEETING IN HOPE HELPING WITH DIFFICULT PROBLEM. AS WE SAW IT, INDONESIA WOULD REQUIRE BOTH CONCESSIONAL AID AND VERY SUBSTANTIAL COMMERCIAL CREDIT IN ORDER TAKE ADVANTAGE INVESTMENT OPPORTUNITIES IN OIL SECTOR. IT SEEMED IN INTEREST OF ALL CONCERNED, INCLUDING PERTAMINA, THAT BOTH THESE SOURCES OF CAPITAL BE ABLE OPERATE CONFIDENTLY UNDER CONDITIONS OFFERING ASSURANCE TO PUBLIC AND PRIVATE LENDERS RE OVERALL ECONOMIC MANAGEMENT AND CONTINUED INDONESIAN CREDIT WORTHINESS. SITUATION APPEARED REQUIRE ANALYTICAL FRAMEWORK AND DECISION- MAKING MACHINERY TO INTEGRATE THESE TWO SOURCES OF CAPITAL, INCLUDING FACILITIES FOR PROJECT- BY- PROJECT APPRAISAL OF PERTAMINA INVESTMENT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKARTA 03294 200226 Z

PROGRAM. IN THIS CONNECTION, WE UNDERSTOOD IBRD PREPARED ASSEMBLE GROUP OF FINANCIAL ANALYSTS AND INDUSTRY ECONOMISTS TO ASSIST IN PROJECT APPRAISAL WORK IF THIS WOULD BE HELPFUL.

3. WIDJOJO AND WARDHANA SAID THEY WERE IN PROCESS "DISCIPLING" PERTAMINA, AND FELT THEY NOW KNEW 99 PERCENT OF WHAT WAS GOING ON. FINANCING HAD BEEN MAINLY SHORT MATURITIES, THE 7- YEAR FNCB LOAN BEING THE LONGEST. MANY PROJECTS HAD BEEN FOUND WORTHWHILE, AND WOULD BE ALLOWED PROCEED, WHILE OTHERS, SUCH AS "PELITA GARDEN", WOULD BE ABORTED. THEY WERE CONVINCED THAT PERTAMINA HAD MANY GOOD PROJECTS, AND WARDHANA SAID HE "CONFUSED" BY FIRST HAVING TO REIN IN PERTAMINA AND NOW BEING ASKED TO APPROVE EVEN LARGER INVESTMENTS.

4. IDEA OF EXPERT TEAM TO HELP EVALUATE PERTAMIN PROJECTS RECEIVED COOLLY AND BROUGHT LITTLE RESPONSE. WIDJOJO SAID NOT APPROPRIATE HAVE IBRD EVALUATING PROJECTS IN SECTOR WHERE IBRD NOT POTENTIAL LENDER. FOR WHATEVER REASON, INDONESIANS DO NOT SEEM FEEL LACK OF EXPERTISE IN PROJECT ASSESSMENT IS THE PROBLEM.

5. THEY SAID CILACAP REFINERY AND LNG PROJECTS WERE MOST IMPORTANT AND MOST IMMINENT NEW PERTAMINA INVESTMENTS AND ON THESE THERE WASN'T TIME FOR IBRD STUDY. THE GOVERNMENT (READ PRESIDENT SUHARTO) HAD "DECIDED" TO SEEK A MIX OF CONCESSIONAL LOANS AND EXPORT CREDITS TO FINANCE THESE PROJECTS. THEY WOULD BE APPROACHING U. S. AND JAPAN TO EXPLORE POSSIBILITIES. RADIUS PRAWIRO GOING TO TOKYO FOR THIS PURPOSE, AND ALI WARDHANA WOULD BE SEEKING APPROPRIATE APPOINTMENTS IN USG DURING HIS VISIT TO WASHINGTON THIS MONTH.

6. WE INDICATED IN RESPONSE QUESTION ABOUT PROSPECTS IN U. S. FOR ASSEMBLING SUCH PACKAGE THAT WE VERY DOUBTFUL CONCESSIONAL FINANCING AVAILABLE FOR THIS PURPOSE, AND SAID IF PROJECTS COULD NOT BEAR COMMERCIAL RATES OF INTEREST THERE WOULD BE QUESTION WHY THEY SHOULD BE UNDERTAKEN. WARDHANA WONDERED WHO HE SHOULD TALK TO IN WASHINGTON, AND WE SUGGESTED HE FIRST CALL ALEX SHAKOW WHO WOULD HELP IN SETTING UP APPROPRIATE APPOINTMENTS IN A. I. D., STATE AND EXIM. GORDON SUGGESTED HE SEE MCNANARA, CARGILL AND BERNIE BELL IN IBRD.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKARTA 03294 200226 Z

7. ONE MOTIVE IN SEEKING BLEND CONCESSIONAL AID INTO FINANCING THESE PROJECTS APPEARED BE TO AVOID SCRUTINY OF IMF BY GETTING FINANCING OUT OF RANGE COVERED BY STANDBY. WIDJOJO VERY CLEAR THAT IMF WOULD NOT BE PREPARED TO ACCEPT INCREASE IN MEDIUM- TERM BORROWING CEILING SUFFICIENT TO ACCOMMODATE THESE TWO MASSIVE PROJECTS, AND SAID HIS CONVERSATIONS WITH STANDBY MISSION LEFT NO DOUBT IN HIS MIND THAT IMF WOULD " LOOK VERY DIFFERENTLY" ON BILLION DOLLAR CEILING AS COMPARED SOMETHING ON ORDER OF MAGNITUDE PAST YEARS. WE ATTEMPTED SUGGEST THIS PERHAPS TOO RIGID AN INTERPRETATION, AND THAT IMF WOULD BE PREPARED CONSIDER HIGHER CEILING GIVEN ADEQUATE ASSURANCE THAT INDIVIDUAL PROJECTS HAD BEEN ADEQUATELY APPRAISED, PARTICULARLY FROM STANDPOINT IMPACT ON DEBT- SERVICE BURDEN. WIDJOJO QUICKLY AND SOMEWHAT TESTILY REBUFFED THIS, POINTING OUT HE WAS ONE WHO HAD SPOKEN MOST WITH IMF TEAM ON SUBJECT.

8. ON QUESTION OF HOW TIMING OF VARIOUS ARRANGEMENTS WOULD WORK OUT, INDONESIANS ACKNOWLEDGED PERTAMINA'S DESIRE GET FINANCING FOR REFINERY AND LNG PROJECT PINNED DOWN NEAR FUTURE. THEY ALSO SAID THEY EXPECTED REACH AGREEMENT WITH IMF ON STANDBY BEFORE MAY IGGI MEETING.

9. COMMENT: WE ALL GREATLY DISCOURAGED BY MEETING. THE INDONESIANS DO NOT APPEAR TO BE ADDRESSING WHAT WE BELIEVE IS ROOT OF PROBLEM, NAMELY FULL CONTINUING DISCLOSURE OF PERTAMINA BORROWING AND INVESTMENT PLANS, AND SCRUTINY BY COMPETENT AUTHORITIES FOR CONFORMITY WITH NATIONAL ECONOMIC POLICIES. INSTEAD, BASED ON WHAT WE BELIEVE IS OVERLY RESTRICTIVE READING OF IMF INTENTIONS, THEY ARE SEEKING LOOPHOLE TO ET TRANSACTIONS OUT FROM UNDER IMF CEILING. MORE THAN THAT, HOWEVER, THE ATMOSPHERICS ON THIS ISSUE ARE INCREASINGLY WORRISOME. WE DOUBT THAT IMF IS GETTING THROUGH TO INDONESIANS, AND WIDJOJO SPOKE TO GORDON WITH UNCHARACTERISTIC SHARPNESS DURING MEETING. FROM OTHER SOURCES WE HEAR THAT IBNU, WHO ACKNOWLEDGES NOT LIKING ALI WARDHANA, TAKES THE POSITION THAT NOBODY HAS TOLD HIM WHAT THE FUSS IS ALL ABOUT OR WHAT HE SHOULD BE DOING THAT HE ISN' T. THE PICTURE IS ONE OF INCOMPLETE COMMUNICATION ON ALL FRONTS, MECHANICAL SOLUTIONS TO SUBSTANTIVE PROBLEMS AND SERIOUS QUESTION OF CONFIDENTIAL

CONFIDENTIAL

PAGE 04 JAKART 03294 200226 Z

TIMING IN HOW ALL THIS WORKS OUT. FOR THEMOMENT WE ARE OUT OF IDEAS ON WHAT WE MIGHT USEFULLY DO NEXT. BEST POSSIBILITY WOULD SEEM BE ARRANGE OCCASION DURING WARDHANA'S WASHINGTON VISIT TO REHEARSE THIS WITH HIM IN HOPES CHANGE OF VENUE AND FRESH FOCUS WILL HELP.

GALBRAITH

CONFIDENTIAL

*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 19 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973JAKART03294
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730341/aaaailps.tel
Line Count: 174
Locator: TEXT ON-LINE
Office: ACTION EAP
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 73 JAKARTA 3165
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 05 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05-Nov-2001 by willialc>; APPROVED <21-Nov-2001 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980107
Subject: MEDIUM- TERM BORROWING AND IMF STANDBY
TAGS: EFIN, ID
To: EA
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005